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China - Peoples Republic of

Oilseeds and Products Update

September Lockup Report

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Report Highlights:

Post's September forecast for MY14/15 total oilseed production is 55.8 million tons, down by 5 percent from an estimated 58.7 million tons in MY13/14, primarily due to lower peanut and cottonseed production. Despite a short drop in oilseed product consumption in MY13/14, total oilseed demand continues to grow. Soybean imports in particular are estimated at 69 million tons in MY13/14 and 72 million tons in MY14/15.

Executive Summary:

Post's September forecast for MY14/15 total oilseed production is 55.8 million tons, down by 5 percent from an estimated 58.7 million tons in MY13/14. Reductions in the plating areas and yield for both peanuts and cotton seeds lowered total oilseed production. Moreover, reports of a moderate recovery of the soybean planted area in Heilongjiang Province seem to have a limited impact on total domestic oilseed production. In addition, despite a short drop in consumption of oilseed products in MY13/14, total oilseed demand maintains a growing trend, particularly for soybeans, with total imports estimated at 69 million tons in MY13/14 and 72 million tons in MY14/15.

MY14/15 domestic oilseed production falls by 5 percent

Soybean production is estimated at 12 million tons based on a planted area of 6.75MHa, a 1.6 percent drop from the estimated production in the previous year. In late August, the Heilongjiang Provincial Agriculture Commission reported that soybean planted area in the province recovered for the first time since 2009. The recovery is stated to be in response to a government policy announced before the sowing season to subsidize soybean farmers based on a higher "target price of RMB4,800/ton." This target price is about RMB200/ton higher than the average price of the previous season. Additionally, during MY14/15 in certain areas of Heilongjiang Province some farmers switched from planting corn to planting soybeans. In the fall of 2013, a flood reduced the quality and price of the MY13/14 corn crop which affected corn planting in MY14/15. Currently, soybean harvest continues in the four Northeast provinces. In its September report, the China National Grain and Oils Information Center (CNGOIC) estimated total soybean production at 11.5 million tons. Contrary to Heilongjiang local reports, CNGOIC estimated a fall in the planted area in all four Northeast Provinces.

Rapeseed production is forecasted at 14.1 million tons, unchanged from Post's August data. An August report from Hubei Province shows MY14/15 rapeseed production increased by 2.7 percent to 2.57 million tons, based on a 1.8 percent increase in planted area and a 1 percent gain in yield over the previous year.

According to the State Grain Administration, as of September 20, total purchased rapeseed for state reserves stood at 3.47 million tons, down by 2.68 million tons compared to the same time in the previous year. CNGOIC estimated that total rapeseed purchase for state reserves will fall significantly from 6.16 million tons from last year to about 3.5 million tons. This is primarily due to a smaller production than the official estimate and the government's more strict purchase policy to reduce the volume of state reserves. Strong imports of rapeseed in the first months of MY13/14 also contributed to a smaller domestic production.

Similar to soybeans a "direct subsidy to rapeseed farmers" policy is likely to be enforced in 2015. This policy, if implemented, is expected to encourage rapeseed planting and have a positive impact on rapeseed planting area in the future. That said, as rapeseed planting uses winter idle land, this policy is not expected to have an impact on other crops.

Post's Peanut production is forecasted to fall to 16 million tons for MY14/15, down by 1 million tons

from the previous report. The serious drought in leading peanut-producing provinces including Henan, Shandong and Liaoning reduced peanut yield, while the low price in late MY13/14 lowered farmer's returns and also resulted in a reduced planted area.

CNGOIC's September report adjusted down MY14/15 peanut production to 16.5 million tons based on a planted area of 4.5 MHa, and an almost unchanged yield from the previous year. However, most Chinese industry sources believe that the fall in planting area is actually higher than the official estimate and that the peanut yield in major producing provinces was seriously impacted by drought during the months of July-August. In an industry forum, a China's industry insider estimated that both the MY14/15 planted area and average yield declined by 10 percent over the previous year. Thus, total production is estimated down to 12.6 million tons based on its estimated MY13/14 production at 15.8 million tons. Meanwhile another large peanut trader estimated MY14/15 planted area to be down by 15%. Total peanut production is expected to fall by 19 percent from the previous year. In Liaoning province, a trader's survey showed that a sharp fall in peanut prices led to a net loss from peanut farming of about RMB450/hectare compared to the net gain of RMB4,275/hectare received from corn farming in MY13/14. As a result, corn and other cash crops replaced peanuts in Liaoning. Similarly in Shandong, farmers have reduced planted peanut area and have added corn and other cash crops such as tobacco, vegetables and herbs.

Cotton seed production for MY14/15 is 11.3 million tons, down 1.48 million tons from 12.78 million tons in the previous year, due to expectations of a lower cotton planted area. September news from China's industry sources appear to support a smaller than previously expected cotton production in MY14/15, however, its impact on total oilseed supply and trade remains limited.

Protein meal consumption is recovering

As indicated in the August report, China Feed Industry Association estimated total feed production at 83 million tons in the first half of 2014, down 3 percent compared to the same time in 2013. Low or negative profit for swine farming since later 2013 remains a major factor in reducing feed demands.

However, increased scale-farming demand for industry feed is boosting protein meal inclusion. Protein meal consumption has been recovering since July in response to the usual rising demand for animal products proceeding the upcoming holiday season. Additionally, should there be no solution reached between China and the United States, China's restriction on imports of DDGS enforced in later July is expected to cut DDGS imports by an estimated 3 million tons. The current sufficient supply of soybeans at low price in the world marketplace also seems to encourage use of soybean meal by Chinese feed mills.

China's official survey shows that the national average price for live hogs in mid-September was RMB15.09/Kg, a slight decrease from August. Although the price ratio between pork and grain in mid-September stood at 5.87 to 1, lingering below the breakeven-point for the past seven months, most industry insiders expect pork prices to recover and profit for swine farming to be positive beginning the fourth quarter (after the Chinese National Day vacation).

Selling of soybean reserves continue

The government's sale of soybean reserves continued with traders purchasing lower volumes. Industry sources reported the purchased volume on September 16 to be 69,000 tons (at an average price of RMB4,000/ton), out of the 330,000 tons offered in auctions. As the purchased volume remains small and is mainly for food use, its impact on the crushing sector is limited.

Trade

-MY13/14 soybean imports expected to hit record 69 million tons

Post estimates China's soybean imports for MY13/14 at 69 million tons, up from the 68 million tons in previous report, and forecasts MY14/15 imports at a record 72 million tons. Based on Global Trade Atlas (GTA) statistics, total soybean imports for the first three quarters of MY13/14 hit 51.83 million tons, up 24.6 percent over the same period in MY12/13. Industry sources estimate imports in the fourth quarter at 17 million tons. CNGOIC's mid-September report indicated MY13/14 soybean imports at 70 million tons, and forecasts MY14/15 soybean imports at 73 million tons. CNGOIC attributed the MY13/14 high import growth to strong consumption demand for protein meal as a lower supply of domestic soybeans for crushing was unable to satisfy domestic crushing capacity. Additionally, industry sources reported soybean demand is also driven by China's feed sector increased use of extruded whole soybean meal. Given a larger soybean crop and expected high global ending stocks, some industry sources are more optimistic and are forecasting MY14/15 China's soybean imports to exceed 76 million tons.

-Soybean meal exports rebounded in MY13/14

Given an excessive supply of soybean meal in the domestic market, China increased soybean meal exports in MY13/14 which are expected to reach 2.2 million tons, up 66 percent from the previous year. This trend is likely to continue in MY14/15. The current low-priced imported soybeans will likely stimulate China's crushing sector to increase utilization of its large crushing capacity and to meet the protein meal demands of neighboring markets.

-Rapeseed imports expected to be strong

Rapeseed imports are expected to be strong in MY13/14 as domestic rapeseed production remains lower than officially reported, and demand for lower-priced rapeseed continues. MY13/14 rapeseed imports are estimated at 4.3 million tons and are expected to stay strong in MY14/15.

Peanut trade

A lower MY14/15 peanut production forecast will likely have limited impact on general oilseed situation. However, imports of peanut oil could increase, while the export prices for other peanut products will likely stay strong. Peanut imports into China are restricted by a high import duty.

Note: Exchange rate: \$1=RMB6.2